

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 IO-10 AF-06 ARA-06 EA-06 NEA-09

AGR-05 COME-00 SP-02 AID-05 NSC-05 CIEP-01 TRSE-00

SS-15 STR-04 OMB-01 CEA-01 L-02 CIAE-00 INR-07

NSAE-00 OIC-02 SSO-00 INRE-00 NSCE-00 TAR-01 FRB-03

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O 081631Z MAY 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 0960

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FOR O'DONNELL, EB/TRP

E.O. 11652: N/A

TAGS: ETRD, EAGR, UK

SUBJ: SUGAR: INTERNATIONAL SUGAR ORGANIZATION MEETINGS,
MAY 6-15, 1975

REF: LONDON 15964

1. AS NOTED IN REFTEL, THE INTERNATIONAL SUGAR ORGANIZATION (ISO) SCHEDULED A NEW SERIES OF MEETINGS FOR EARLY MAY, 1975. THE MEETINGS, WHICH ARE BEING ATTENDED BY US OBSERVERS, BEGAN MAY 5 AND WILL CULMINATE IN A MEETING OF THE INTERNATIONAL SUGAR COUNCIL ON MAY 15. THIS CABLE PROVIDES A BRIEF BACKGROUND AND A PRELIMINARY ASSESSMENT OF LIKELY OUTCOME.

2. THE SERIES OF MEETINGS CONSISTS OF BOTH ROUTINE MEETINGS OF THE BODIES OF THE ISO, E.G., THE SUGAR COUNCIL, THE EXECUTIVE COMMITTEE AND THE SUGAR CONSUMPTION COMMITTEE, AND OF THE CONSULTATIVE COMMITTEE

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AND ITS SUBSIDIARIES. THE LATTER BODIES ARE ADDRESSING

THE PROBLEM OF PREPARING FOR NEGOTIATION OF A NEW INTERNATIONAL SUGAR AGREEMENT (ISA) UNDER THE TERMS OF ARTICLE 31 OF THE PRESENT ISA, WHICH CHARGES THE COUNCIL WITH STUDYING THE "BASIS AND FRAMEWORK" OF A NEW AGREEMENT. OBVIOUSLY, THE WORK OF THE CONSULTATIVE COMMITTEE AND ITS SUB-GROUPS IS THE MORE INTERESTING AND, POTENTIALLY, MORE IMPORTANT OF THE MEETINGS.

3. THE CONSULTATIVE COMMITTEE FRAMEWORK CONSISTS OF THE COMMITTEE ITSELF (MEMBERSHIP SAME AS THE COUNCIL), A SUB-COMMITTEE AND TWO WORKING GROUPS (WG)--ON PRICES AND STOCKS. THIS RATHER COMPLICATED STRUCTURE REPRESENTS AN ATTEMPT (OFTEN FORLORN) TO ISOLATE AND TREAT STOCKS AND PRICES AS TECHNICAL RATHER THAN POLICY ISSUES. THUS, THE ACTION NOW IS REALLY IN THESE WORKING GROUPS. ONE, WG-A, IS IN THE PROCESS OF EXAMINING STOCKS IN CONTEXT OF A NEW ISA, WHILE WG-B IS CONSIDERING PRICE REFERENCES. THESE WGS WILL REPORT UP THE CHAIN OF COMMAND TO THE COUNCIL NEXT WEEK. THE IMPORTANT POINT TO BEAR IN MIND IS THAT NO POLICY DECISIONS ARE BEING TAKEN. AS A MINIMUM, A REPORT WILL BE MADE OF PROGRESS. AS A MAXIMUM, THE COUNCIL WILL BE URGED TO PROPOSE A DATE FOR NEGOTIATIONS ON THE BASIS OF TECHNICAL PROGRESS MADE (WITH PARAMETERS SUGGESTED BY THE WGS). OUR ASSESSMENT AT THIS POINT IS THAT SOME PROGRESS WILL BE MADE, AND INDEED THE COUNCIL WILL BE URGED TO "CONSIDER AN EARLY DATE FOR NEGOTIATIONS," BUT THAT LITTLE WILL BE DONE AT THIS TIME BEYOND THIS.

4. WORKING GROUP A. THE PRIMARY FUNCTION OF THIS WG IS TO EXAMINE A PAPER PREPARED BY THE SECRETARIAT ON AN INTERNATIONAL STOCKHOLDING SCHEME. THE THRUST OF THE PAPER IS THAT A BUFFER OR INTERVENTION STOCK SHOULD BE SET UP WITH THE PRIMARY PURPOSE OF DEFENDING SOME MINIMUM PRICE BY WITHDRAWING SURPLUS SUGAR OFF THE MARKET IN PERIODS OF DECLINING PRICES. IN PERIODS OF TIGHT SUPPLY, THERE WOULD BE SALES FROM THE STOCK, BUT THIS IS GIVEN LESS ATTENTION AND CLEARLY ACCESS TO SUPPLY VIA THE STOCK IS SEEN AS OF LESSER IMPORTANCE THAN DEFENSE OF THE LOWER PRICE LIMIT. THE PAPER SUGGESTS SOME NOVEL LIMITED OFFICIAL USE

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FEATURES, E.G., THAT CONSUMERS PAYING MONEY INTO A STOCK MIGHT RECEIVE PRIORITY CLAIMS FOR SUGAR ON IT. MOST IMPORTANT, HOWEVER, IS THE IMPLEMENTATION STRATEGY SUGGESTED BY THE SECRETARIAT, I.E., THAT A "STEPPING STONE" APPROACH TO NEGOTIATING BE UNDERTAKEN, WITH THE BUFFER STOCK FEATURE TO BE ADOPTED FIRST AND A MORE FULLY DEVELOPED ISA NEGOTIATED LATER, AT " . . . SUCH TIME AS A QUOTA TYPE AGREEMENT BECOMES POSSIBLE OR IS CONSIDERED

DESIRABLE. . . ." DURING THE FIRST MEETING OF THE WG,
DESPITE THE BEST EFFORTS OF THE CHAIRMAN (MONTES--
GUATEMALA) TO FOCUS DEBATE ON TECHNICAL ISSUES, A NUMBER
OF POLICY STATEMENTS WERE MADE UNDER THE GUISE OF
"GENERAL OBSERVATIONS." THESE SUGGEST THAT MEMBERS SUCH
AS SOUTH AFRICA AND THE SOVIET UNION ARE QUITE WARY OF
ANY BUFFER STOCK SCHEME, THAT THE CUBANS ARE NON-
COMMITTAL AND THAT CANADA AND JAPAN ARE AGAINST ANY
PIECEMEAL APPROACH. AFTER SUCH INITIAL STATEMENTS, THE

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WG SEEMS TO HAVE GOTTEN DOWN TO TECHNICALITIES.

5. WORKING GROUP B. THIS WG IS EXAMINING TWO DOCUMENTS,
ONE CONCERNING THE UNIT IN WHICH PRICES ARE EXPRESSED
AND ANOTHER WHICH EXAMINES PRICE CRITERIA--INVESTMENT
AS A FUNCTION OF PRICE, COST OF PRODUCTION CRITERIA IN
PRICE SETTING, ETC. EARLY DISCUSSIONS SUGGEST A BIAS
FOR THE US DOLLAR AS THE BASIC UNIT, BUT WITH PROVISION

FOR ADJUSTMENTS IN LIGHT OF CHANGES IN VALUE OF THE DOLLAR
WE BELIEVE INDEXATION PROBABLY WILL NOT BE DISCUSSED
DIRECTLY, BUT ONLY INDIRECTLY IN RELATION TO THE PRICE
UNIT.

6. OUTLOOK. AS NOTED IN PARA 3, WE DOUBT THAT A DATE
FOR A NEGOTIATING CONFERENCE WILL BE PROPOSED AT THIS
TIME. NEVERTHELESS, PARTICIPANTS ARE ALL TOO AWARE THAT
THE LONDON MARKET HAS PROVIDED A SHARP REMINDER OF THE
NEED FOR SOME URGENCY. PRICES ARE STILL HIGH BY
HISTORICAL COMPARISON, BUT THE LONDON DAILY PRICE (LDP)
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HAS DROPPED FROM ABOVE POUND 400 PER METRIC TON SHORTLY
AFTER THE SEPTEMBER MEETING OF THE CONSULTATIVE COMMITTEE,
TO POUNDS 198 ON MAY 5. THE LDP DROPPED A FURTHER 18,
TO 180 POUNDS, ON THE FIRST DAY OF THE MEETING OF WG-A,
MAY 6. EXPORTERS PROBABLY WILL ATTEMPT TO HAVE THE COUN-
CIL PROPOSE A DATE FOR NEGOTIATIONS, BUT IF THEY PUSH
TOO HARD ON THE BUFFER STOCK APPROACH, THE MOST LIKELY
RESULT WILL BE A RECOMMENDATION FOR MORE DETAILED AND
URGENT STUDY IN PREPARATION FOR A CONFERENCE WHOSE DATE
WILL BE SET LATER.

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